

The logo for UCIrvine, featuring the letters 'UCI' in a large, bold, serif font, followed by 'RVINE' in a smaller, all-caps, serif font. A vertical line separates the 'UCI' and 'RVINE' parts.

UCIRVINE

The text 'INTERNAL AUDIT SERVICES' in a serif font, arranged in two lines. A vertical line is positioned to the left of the text.

INTERNAL
AUDIT SERVICES

Fair Wage/Fair Work

Internal Audit Report No. I2017-106

June 30, 2017

Prepared By

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INTERNAL AUDIT SERVICES
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June 30, 2017

**SNEHAL BHATT
CHIEF PROCURMENT OFFICER AND DIRECTOR OF RISK SERVICES
PROCUREMENT SERVICES**

**SUSANNA RUSTAD
DIRECTOR OF PROCUREMENT AND SUPPLY CHAIN
PROCUREMENT SERVICES**

**RE: Fair Wage/Fair Work Audit
Report No. I2017-106**

Internal Audit Services has completed the Fair Wage/Fair Work review and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.

Mike Bathke

Mike Bathke
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2016-2017 audit plan, Internal Audit Services (IAS) conducted a review of the Fair Wage/Fair Work (FW/FW) program at the Medical Center and Campus. Based on the audit work performed, some internal controls need improvement and should be strengthened to minimize risks, ensure compliance with University policies and procedures and/or best business practices. Specifically, the following concerns were noted.

Management of FW/FW Contracts – The Medical Center and Campus Procurement Offices do not have an established process to ensure suppliers comply with FW/FW requirements. No list or database is maintained of contracts where FW/FW applies and there is no list of FW/FW policy exceptions. These observations are discussed in V.1.

Contract Provision Language – Some of the Campus contracts reviewed did not have the FW/FW provision language as required by policy. This observation is discussed in Section V.2.

Certification/Annual Audit – There is no method of identifying FW/FW contracts in excess of \$100,000 to proactively follow-up on certifications/annual audits. This observation is discussed in Section V.3.

II. BACKGROUND

University of California (UC) President Janet Napolitano announced at the July 22, 2015 Regents Meeting that a FW/FW program is to be adopted. This program is effective October 1, 2015 for all new agreements and renewed and extended agreements. New minimum wage plan for UC employees working at least 20 hours per week and employees of suppliers providing services to UC under this program are to be paid a minimum of \$13 per hour effective October 1, 2015, \$14 per hour effective October 1, 2016, and \$15 per hour effective October 1, 2017. FW/FW does not apply if the agreement:

- Is only for the furnishing of goods;
- Involves services not performed at one or more UC campuses, labs or medical centers;

- Involves services that are a Public Work with a wage determination *at or above* the UC Fair Wage; and
- Involves services funded by an extramural award containing sponsor-mandated terms and conditions (federal, state or private foundation, research grants)

For services that exceed \$100,000 annually, suppliers are required to perform an annual independent audit and certification, at the supplier's expense. Suppliers must also ensure its auditor makes available to UC its FW/FW work papers.

Procurement offices will contribute information to the location's database regarding agreements handled by buyers that contain FW/FW provision and for which an exception has been approved. For service agreements that exceed \$100,000 annually, remind suppliers of FW/FW audit requirement before the agreement's anniversary date. Buyers should receive certification forms from suppliers and forward a copy of certification to the internal auditor.

III. PURPOSE, SCOPE AND OBJECTIVES

The purpose of the audit was to assess whether the Medical Center and Campus Procurement Offices have implemented processes to ensure vendor compliance with the FW/FW work plan. The scope included a review of applicable contracts and selected transactions for review and testing from October 1, 2015 to December 31, 2016.

The audit included the following objectives:

1. Determine whether applicable contracts for services over \$100,000 comply with FW/FW requirements;
2. Determine if FW/FW contracts contain UC Terms of Conditions of Purchase;
3. Determine if exceptions were adequately managed and approved.

IV. CONCLUSION

As the Medical Center and Campus Procurement Offices are transitioning into the newly implemented FW/FW program, departmental controls and processes could be further enhanced in the areas of ensuring that all new agreements and renewed and extended agreements contain a FW/FW provision, maintenance of a contracts listing with the FW/FW provision and exceptions that have been granted, and proactively reaching out to suppliers to ensure audits are completed and certifications are sent.

Observation details and recommendations were discussed with management, who formulated action plans to address the issues. These details are presented below.

V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Management of FW/FW Contracts

Background

IAS requested a listing of contracts executed between October 1, 2015 to December 31, 2016 from the Procurement Offices at the Medical Center and Campus in order to complete sample testing. The Medical Center Procurement Office provided a list of all current contracts where the FW/FW provision applied but could not identify the contacts executed within the audit period so testing of Medical Center contracts could not be completed.

The Campus Procurement Office provided a listing of all contracts executed during October 1, 2015 to May 31, 2016 but was unable to identify those where FW/FW applied. Furthermore, a list of contracts executed June 1, 2016 to December 31, 2016 was not provided.

Observation

The Campus and Medical Center Procurement Offices do not have an established process to ensure suppliers comply with FW/FW requirements. There is no listing or database identifying those contracts where FW/FW

applies. Additionally, there is no listing of FW/FW policy exceptions that have been approved to ensure approval documentation is maintained.

Management Action Plan

Medical Center

Effective August 7, 2017, Medical Center is going to implement an Enterprise Resource Planning (ERP) system called Premier. This ERP system has a capability to flag contract agreements that contain a FW/FW provision. With this feature, the Medical Center will be able to track and manage a list of contracts with FW/FW provision. Accordingly, any FW/FW policy exceptions granted will be properly documented with senior procurement official approval. The Medical Center will track and maintain a listing of exceptions to the FW/FW provision that have been granted.

Campus

All Procurement and contract team members have been informed of the FW/FW requirement. All service agreement templates are being updated to include the FW/FW requirements in the agreements. Since the Campus does not have a contracts management system and all executed contracts are logged using a manual Google Docs/Excel file, a column will be added to flag all contracts that qualify for FW/FW. All contracts above \$100,000 that were effective after October 1, 2015 are being reviewed and tracked using excel to determine the contract anniversary date. This list will be updated on an ongoing basis and reviewed every month to send notifications to those suppliers that need to provide certification. For the future, UC Procurement Services is implementing the Contracts Management System module, system-wide. This system should help identify, track, and comply with the FW/FW requirement, once implemented.

2. Contract Provision Language

Background

In accordance with Business and Finance Bulletin BUS-43 Materiel Management (BUS-43), all contracts for UC FW/FW Services must contain a

provision substantially in the form of the UC FW/FW Article in the UC Terms and Conditions of Purchase.

Observation

The Medical Center did not maintain a listing of FW/FW contracts entered during the audit period so testing of Medical Center contracts could not be completed. Since no list was maintained of contracts where FW/FW provision applied at Campus, it was difficult for IAS to select a representative sample of contracts for testing. Eleven Campus contracts were randomly selected in hopes that FW/FW applied and testing could be completed. Five of the 11 contracts later found that FW/FW did not apply as work was not performed at the UC location or was executed prior to the effective date of October 1, 2015. As such, six contracts remained for review, three of which did not have the FW/FW provision language as required by BUS-43.

Management Action Plan

Medical Center

Effective May 16, 2017 UC has revised the standard terms and conditions. The Medical Center has begun to utilize this new template with standard terms and conditions that specifies FW/FW language provision under Article 25. This will enable Medical Center to comply with the requirement of BUS-43 and ensure that contracts that require FW/FW provision language is captured.

Campus

Campus purchase order already has Article 25 incorporated in their standard terms and condition. Since the service agreement supersedes the terms and conditions on a purchase order, all the service agreement templates have been revised to include the FW/FW language in them and went into effect from June 15, 2017.

3. Certifications/Annual Audit

Background

For services that exceed \$100,000 annually, suppliers will provide annual independent audit at the supplier's expense. The audit will ensure that payroll records confirm FW/FW compliance. Suppliers should ensure that their auditor reviews payroll records to confirm FW/FW compliance. FW/FW work papers should be made available to UC internal audit upon request. Any exceptions and management corrective action in audit reports should be documented. Suppliers should document audit results on UC FW/FW certification form and send to UC (Procurement) annually no later than 90 days after each 1-year anniversary of the agreement's effective date.

Observation

The Medical Center and Campus Procurement Offices do not have effective processes to ensure that certifications/annual audits have been performed. IAS contacted one supplier to inquire about the certifications/annual audit but the supplier was unaware of such requirement. Without an established process, procurement cannot proactively remind suppliers of FW/FW audit requirements before agreements anniversary date, follow-up on certification forms, and ensure a copy of the certification form is sent to IAS.

Management Action Plan

Medical Center

Effective August 7, 2017, Medical Center is going to implement an ERP system called Premier. With this system, Medical Center plans to proactively monitor and remind suppliers of FW/FW audit requirements before agreements anniversary date, follow-up on certification forms and ensure a copy of the certification form is sent to IAS.

Campus

In the absence of a contracts management system, every procurement and contracts team member has been made aware of the FW/FW certification requirement and all contracts over \$100,000 are tracked to inform supplier of

this requirement. Where necessary, an addendum is being added to the existing agreement to include the FW/FW requirement as part of the agreement. This document will be reviewed monthly to meet the certification requirement, until the new system is implemented.